

## Message Text

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14  
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07

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R 221715Z JUL 76  
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TO SECSTATE WASHDC 4801  
SECDEF WASHDC  
INFO AMEMBASSY LONDON  
CINCLANT  
USCINCEUR  
USDOCOSOUTH  
USLOSACLANT  
USNMR SHAPE

C O N F I D E N T I A L USNATO 4106

E.O. 11652: GDS  
TAGSC MPOL, NATO, UK  
SUBJ: UK DEFENSE CUTS

THERE FOLLOWS BELOW TEXT OF LETTER FROM UK DEFENSE SECRETARY  
MASON TO SYG LUNS REGARDING RECENT DECISIONS INVOLVING CUTS  
IN UK DEFENSE EXPENDITURES. BEGIN TEXT:

1. THE CHANCELLOR OF THE EXCHEQUER WILL BE MAKING A  
STATEMENT TO THE HOUSE OF COMMONS AT 1530 THIS AFTERNOON  
ABOUT THE CUTS THAT THE BRITISH GOVERNMENT HAVE DECIDED  
THEY MUST MAKE IN PUBLIC EXPENDITURE IN 1977/78. I AM  
WRITING TO EXPLAIN THE ECONOMIC BACKGROUND TO THIS  
DECISION AND TO LET YOU KNOW HOW THE DEFENCE BUDGET WILL  
BE AFFECTED.  
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2. THE UK ECONOMY HAS BEGUN A GOOD RECOVERY FROM ITS LOW  
POINT OF 1974 AND 1975. THE RATE OF INFLATION IS HALF  
WHAT IT WAS A YEAR AGO AND INDUSTRIAL PRODUCTION AND  
EXPORTS ARE INCREASING. BUT THERE REMAIN REAL PROBLEMS.

IN PARTICULAR, THERE IS A CONTINUED LARGE DEFICIT ON THE BALANCE OF PAYMENTS: AND STERLING HAS AT TIMES COME UNDER HEAVY PRESSURE. THE CHANCELLOR'S STATEMENT WILL DESCRIBE THE FULL RANGE OF MEASURES THAT THE GOVERNMENT PROPOSE TO TAKE TO RELEASE RESOURCES AND REDUCE BORROWING. REDUCTIONS IN THE LEVEL OF PUBLIC EXPENDITURE PREVIOUSLY PLANNED FOR 1977/78 ARE AN INESCAPABLE PART OF THE ACTION REQUIRED AND WILL AMOUNT TO A TOTAL REDUCTION OF ABOUT PS 1,000 MILLION AT 1976 SURVEY PRICES IN THE PLANNED LEVELS FOR 1977/78 SET OUT IN "PUBLIC EXPENDITURE TO 1979/80" (CMND 6393).

3. AS YOU WILL APPRECIATE, SUCH LARGE CUTS IN PUBLIC EXPENDITURE HAVE PRESENTED THE GOVERNMENT WITH VERY DIFFICULT QUESTIONS ABOUT RELATIVE PRIORITIES IN OUR PUBLIC EXPENDITURE PROGRAMMES. IN A WIDE RANGING REVIEW OF THIS KIND THE DEFENCE BUDGET COULD NOT BE EXEMPT: AND IN THE INTERESTS OF OUR LONG-TERM ECONOMIC RECOVERY, DEFENCE HAS HAD TO TAKE ITS SHARE OF THE REDUCTIONS IN PLANNED PUBLIC EXPENDITURE. THE DEFENCE BUDGET FOR 1977/78 WILL, THEREFORE, BE CUT BY PS 100 MILLION TO PS 5,547 MILLION.

4. I APPRECIATE THAT THIS FURTHER CUT IN PLANNED DEFENCE EXPENDITURE WILL BE UNWELCOME NEWS TO THE ALLIANCE. UNFORTUNATELY IT IS UNAVOIDABLE. I SHARE THE CONCERN WHICH YOU AND OUR COLLEAGUES HAVE FREQUENTLY EXPRESSED ABOUT THE ADVERSE TREND IN THE MILITARY BALANCE WITH THE SOVIET UNION. I AM CONVINCED OF THE NEED TO PRESERVE THE COLLECTIVE SECURITY OF THE ALLIANCE. IT IS FOR THESE REASONS THAT I AM DETERMINED TO MAKE NO REDUCTION IN OUR FRONT LINE FORCES COMMITTED TO THE ALLIANCE. I AM EQUALLY DETERMINED THAT THE SAVINGS WE HAVE TO MAKE SHALL AFFECT OPERATIONAL CAPABILITY AS LITTLE AS POSSIBLE.

5. AT THIS STAGE I CANNOT BE PRECISE ABOUT THE MEASURES

WE WILL HAVE TO TAKE. LATER THIS YEAR, HOWEVER, AS WE  
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FINALISE OUR ESTIMATES FOR 1977/78, WE SHOULD BE ABLE TO IDENTIFY WITH MORE CERTAINTY WHERE ADJUSTMENTS CAN BEST BE MADE. I WOULD EXPECT PART OF THE REDUCTIONS TO RESULT FROM UNABOIDABLE SLIPPAGE IN SOME OF OUR PROGRAMMES. FOR THE BALANCE A LARGE PART OF THE SAVINGS WILL RESULT FROM A REPHASING OF THE WORKS PROGRAMME, PARTICULARLY ON DOMESTIC AND ADMINSTRATIVE ACCOMMODATION, AND A REDUCTION IN OUR PLANNED EXPENDITURE ON ACCOMMODATION STORES. THERE WILL ALSO BE SOME REPHASING OF THE INCIDENCE OF EXPENDITURE ON A NUMBER OF EQUIPMENT PROGRAMMES, AND WE WILL, OF COURSE, BE CONCENTRATING ON LOWER PRIORITY ITEMS.  
END TEXTSTRAUSZ-HUPE

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